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SUBJECT: Hundreds of Highly-Polluting Factories Relocated to
Outskirts of Guangzhou

(U) This document is sensitive but unclassified. Please protect
accordingly.

11. (U) Summary: Guangzhou's municipal government will force more
than 400 hundred highly-polluting enterprises to move to designated
zones on the city's outskirts to improve environmental conditions
downtown. Many of the factories are scheduled to relocate to
Nansha, despite the area's delicate ecological system. While
concerns have arisen about simply 'relocating' pollution problems
from Guangzhou's city center and close periphery to a place ninety
minutes from Guangzhou, Nansha insists that relocated factories will
be held to higher environmental standards (through certifications
and approvals). What is unclear is whether government has the
capacity to follow through with this claim. End summary.

Guangzhou Pushing Out Polluters

12. (SBU) Guangzhou plans to force 427 highly-polluting enterprises
to move away from the city's center, according to Zeng Lei, Deputy
Director General of Guangzhou Nansha Economic and Trade Bureau. Most
will be required to move to industrial parks located in the city's
outskirts in an effort to improve environmental protection. These
include the Conghua Economic and Technology Development Zone, the
Huadu Textile and Rubber Industrial Parks, the Panyu Innovation
Technology Park, and the Nansha Heavy Machinery Equipment
Manufacturing Base.

13. (U) Several factories forced by the Guangzhou government to
relocate will soon call Nansha Economic Zone their new home. Located
in the southeast section of Guangzhou, about one and a half hours
away from city center, Nansha lies on the mouth of the Pearl River
Delta Region. With easy access to all of Guangdong's major cities,
Nansha prioritizes eight industrial sectors in its economic
development plan: shipbuilding; electronic information; iron and
steel; automobiles; petrochemicals; machinery and equipment;
high-tech; and port logistics.

14. (SBU) With many polluting enterprises scheduled to relocate to
the area, some have asked whether the government is simply moving
the pollution problem from one area to another. However, Nansha's
administration emphasizes that environmental protection will remain
a high priority, and that enterprises are required to be in
compliance with stringent environmental regulations. They argue
that in many cases Nansha's regulations are more stringent than
those other parts of Guangzhou municipality.

Making Sure Pollution Isn't Relocated, Too

15. (U) For enterprises relocating to Nansha, emphasis on adherence to environmental regulations begins during step one of the relocation process: government approval. Once Nansha's government receives an inquiry from an individual enterprise, or receives the Guangzhou government's list of enterprises required to relocate, the local government requires several procedures prior to approval, including the establishment of an Environmental Impact Assessment (EIA), which addresses the nature of the proposed location's environment, and the hazards that a factory may cause to the ecological system as well as to the public. The EIA is conducted by a certified third-party, who subsequently files the report with the local Environmental Protection Bureau (EPB). In the case of large-scale projects, additional approval regarding environmental suitability may be required from the State Environmental Protection Administration (SEPA). Finally, the EIA must be approved by the Development and Reform Commission (DRC), a policy mandated from the state-level.

16. (SBU) According to Zeng, Nansha does not approve all factories that Guangzhou recommends for relocation, or individual requests by companies, regardless of potential for economic development in the area. Zeng cited the case of Haotian Chemical Company as a prime example. Haotian, Guangzhou's largest chlorine alkali chemical enterprise, recently appeared on Guangzhou's relocation list because it is a heavy polluter. Following an EIA that revealed potential chemical hazards Haotian might pose to nearby residents, the relocation request was denied. (Note: Despite Zeng's claim, a subsequent media report indicated that Guangzhou is still planning to relocate the 50-year-old company to Nansha.)

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17. (SBU) For those enterprises that are approved, Zeng told us they must install and utilize 'state-of-the-art' equipment to adhere to Nansha's current environment standards. According to one senior official at the Nansha EPB, the local government currently relies on factory-located air and water emissions monitors, installed at discharge points, to evaluate factories' pollution levels. Data collected from the monitors is recorded in an online EPB system.

One Relocated Company Raises Its Standards

18. (SBU) Guangzhou Paper Company, one of the city's oldest enterprises and largest sources of factory pollution, has been forced by the municipal government to relocate to Nansha. According to Jiang Peng, Vice General Manager and Chief Engineer, the firm is planning to make upgrades in order to meet Nansha's environmental standards. It will install new production lines that reduce energy consumption for every unit of output; upgrade end-treatment technologies to include anaerobic and aerobic treatments to reduce pollutant levels; and use 100 percent recycled raw materials. With these and additional upgrades, the firm expects to discharge 50 percent less wastewater for each ton of output.

Challenges for Nansha's Government...

19. (SBU) Nansha will face many challenges in living up to its claim that the influx of factories will not adversely affect the local environment. One Guangdong official to whom we talked speculated the Nansha government might place environmental protection second to economic development. The official further pointed out that based on a past EIA, Nansha has been identified as an ecologically-fragile area, suggesting that it is a less than optimal site for factories that have already been identified as heavy polluters. The official said that in many cases local environmental authorities are more accountable to local government priorities, including economic development goals, regardless of national or provincial

environmental mandates.

¶10. (SBU) In addition, the city lacks resources to enforce environmental regulations. Due to installation and operating costs, the factory-located air and water emissions monitors described by the Nansha EPB only cover key enterprises, such as power plants or factories that discharge more than 100 tons of waste water daily. The capacity of the EPB to monitor other enterprises is less certain. The Guangdong official explained this is because national and provincial level environmental bureaus provide very little funding, if any, to local level EPBs, leaving them dependent on the local government's budget. In addition, municipal governments award promotions and raises to EPB officials.

...and Enterprises

¶11. (U) Many enterprises forced to relocate will find it difficult to fund both relocation costs and costs of employing energy efficient, less-polluting technologies. For Guangzhou Paper Company, the new Nansha-based plant is expected to cost RMB 7.5 billion (more than USD1 billion). For those company's identified as 'pillars' of economic development, like Guangzhou Paper, the government will allocate subsidies for relocation and will give preferential access in obtaining land in industrial parks. Those enterprises not included must scout a location on their own, as well as foot relocation costs.

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